

**REPORT OF THE AUDIT OF THE
MORGAN COUNTY
SHERIFF'S SETTLEMENT - 2006 TAXES**

**For The Period
May 14, 2006 Through May 26, 2007**



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EXECUTIVE SUMMARY

**AUDIT EXAMINATION OF THE
MORGAN COUNTY
SHERIFF'S SETTLEMENT - 2006 TAXES**

**For The Period
May 14, 2006 Through May 26, 2007**

The Auditor of Public Accounts has completed the audit of the Sheriff's Settlement - 2006 Taxes for Morgan County Sheriff for the period May 14, 2006 through May 26, 2007. We have issued an unqualified opinion on the financial statement taken as a whole. Based upon the audit work performed, the financial statement is presented fairly in all material respects.

Financial Condition:

The Sheriff collected taxes of \$2,678,576 for the districts for 2006 taxes, retaining commissions of \$110,814 to operate the Sheriff's office. The Sheriff distributed taxes of \$2,567,778 to the districts for 2006 Taxes. Taxes of \$8,019 are due to the districts from the Sheriff and refunds of \$8,035 are due to the Sheriff from the taxing districts.

Report Comment:

- 2006-01 The Sheriff Should Maintain A Receipts Ledger For Taxes And Fees Collected
- 2006-02 The Sheriff Should Pay Taxes To Districts In A Timely Manner
- 2006-03 The Sheriff Should Sign All Copies Of Monthly Tax Reports
- 2006-04 The Sheriff Should Distribute Interest Earnings As Required By Law
- 2006-05 The Sheriff Should Mark Tax Bills Unpaid For Insufficient Funds Checks
- 2006-06 The Sheriff Should Improve Internal Controls Over The Financial Activities Of His Office
- 2006-07 The Sheriff's Office Lacks Adequate Segregation Of Duties
- 2006-08 The Sheriff Should Deposit Tax Collections In A Timely Manner
- 2006-09 The Sheriff Should Batch And Process Tax Bills On A Daily Basis
- 2006-10 The Sheriff Should Prepare Monthly Bank Reconciliations
- 2006-11 The Sheriff Should Make Sure The Delinquent Tax List Is Accurate

Deposits:

The Sheriff's deposits were insured and collateralized by bank securities.

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CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky

Honorable Steven L. Beshear, Governor

Jonathan Miller, Secretary

Finance and Administration Cabinet

Honorable Timothy Conley, Morgan County Judge/Executive

Honorable Mickey Whitt, Morgan County Sheriff

Members of the Morgan County Fiscal Court

Independent Auditor's Report

We have audited the Morgan County Sheriff's Settlement - 2006 Taxes for the period May 14, 2006 through May 26, 2007. This tax settlement is the responsibility of the Morgan County Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Sheriff's Tax Settlements issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Sheriff's office prepares the financial statement on a prescribed basis of accounting that demonstrates compliance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the accompanying financial statement referred to above presents fairly, in all material respects, the Morgan County Sheriff's taxes charged, credited, and paid for the period May 14, 2006 through May 26, 2007, in conformity with the modified cash basis of accounting.

In accordance with Government Auditing Standards, we have also issued our report dated March 24, 2008 on our consideration of the Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.



To the People of Kentucky
Honorable Steven L. Beshear, Governor
Jonathan Miller, Secretary
Finance and Administration Cabinet
Honorable Timothy Conley, Morgan County Judge/Executive
Honorable Mickey Whitt, Morgan County Sheriff
Members of the Morgan County Fiscal Court

Based on the results of our audit, we present the accompanying comments and recommendations, included herein, which discuss the following report comments:

- 2006-01 The Sheriff Should Maintain A Receipts Ledger For Taxes And Fees Collected
- 2006-02 The Sheriff Should Pay Taxes To Districts In A Timely Manner
- 2006-03 The Sheriff Should Sign All Copies Of Monthly Tax Reports
- 2006-04 The Sheriff Should Distribute Interest Earnings As Required By Law
- 2006-05 The Sheriff Should Mark Tax Bills Unpaid For Insufficient Funds Checks
- 2006-06 The Sheriff Should Improve Internal Controls Over The Financial Activities Of His Office
- 2006-07 The Sheriff's Office Lacks Adequate Segregation Of Duties
- 2006-08 The Sheriff Should Deposit Tax Collections In A Timely Manner
- 2006-09 The Sheriff Should Batch And Process Tax Bills On A Daily Basis
- 2006-10 The Sheriff Should Prepare Monthly Bank Reconciliations
- 2006-11 The Sheriff Should Make Sure The Delinquent Tax List Is Accurate

Respectfully submitted,



Crit Luallen
Auditor of Public Accounts

March 24, 2008

MORGAN COUNTY
MICKEY WHITT, SHERIFF
SHERIFF'S SETTLEMENT - 2006 TAXES

For The Period May 14, 2006 Through May 26, 2007

<u>Charges</u>	<u>County Taxes</u>	<u>Special Taxing Districts</u>	<u>School Taxes</u>	<u>State Taxes</u>
Real Estate	\$ 128,946	\$ 647,073	\$1,052,666	\$ 300,092
Tangible Personal Property	16,084	106,479	131,308	117,498
Fire Protection	3,514			
Increases Through Exonerations	12	61	99	28
Franchise Taxes:				
Current Year	18,353	119,981	149,731	
Prior Year	1,554	8,823	12,377	
Additional Billings	9	47	77	22
Unmined Coal - 2005 Taxes	37	179	298	89
Gas Property Taxes	1,077	5,404	8,791	2,506
Oil Property Taxes	131	657	1,069	305
Limestone, Sand and Gravel	128	643	1,046	298
Bank Shares	31,361			
Penalties	2,646	14,465	21,282	10,993
Adjusted to Sheriff's Receipt	7	8	3	2
Gross Chargeable to Sheriff	<u>203,859</u>	<u>903,820</u>	<u>1,378,747</u>	<u>431,833</u>
<u>Credits</u>				
Exonerations	1,362	6,910	11,122	3,438
Discounts	2,648	10,388	16,115	4,696
Delinquents:				
Real Estate	8,152	39,684	64,558	18,404
Tangible Personal Property	125	828	1,021	826
Uncollected Franchise Taxes	<u>3,143</u>	<u>20,635</u>	<u>25,628</u>	
Total Credits	<u>15,430</u>	<u>78,445</u>	<u>118,444</u>	<u>27,364</u>
Taxes Collected	188,429	825,375	1,260,303	404,469
Less: Commissions *	<u>8,296</u>	<u>34,629</u>	<u>50,412</u>	<u>17,477</u>
Taxes Due	180,133	790,746	1,209,891	386,992
Taxes Paid	<u>179,721</u>	<u>785,234</u>	<u>1,217,926</u>	<u>384,897</u>
Due Districts or (Refund Due Sheriff)		**		
as of Completion of Fieldwork	<u>\$ 412</u>	<u>\$ 5,512</u>	<u>\$ (8,035)</u>	<u>\$ 2,095</u>

* and ** See Next Page.

The accompanying notes are an integral part of this financial statement.

MORGAN COUNTY
MICKEY WHITT, SHERIFF
SHERIFF'S SETTLEMENT - 2006 TAXES
For The Period May 14, 2006 Through May 26, 2007
(Continued)

* Commissions:

10% on \$ 10,000
4.25% on \$ 1,228,545
4% on \$ 1,440,031

** Special Taxing Districts:

Library District	\$ 899
Health District	884
Extension District	1,882
Soil Conservation District	265
Ambulance District	<u>1,582</u>
Due Districts	<u>\$ 5,512</u>

MORGAN COUNTY
NOTES TO FINANCIAL STATEMENT

May 26, 2007

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

The Sheriff's office tax collection duties are limited to acting as an agent for assessed property owners and taxing districts. A fund is used to account for the collection and distribution of taxes. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

B. Basis of Accounting

The financial statement has been prepared on a modified cash basis of accounting. Basis of accounting refers to when charges, credits, and taxes paid are reported in the settlement statement. It relates to the timing of measurements regardless of the measurement focus.

Charges are sources of revenue which are recognized in the tax period in which they become available and measurable. Credits are reductions of revenue which are recognized when there is proper authorization. Taxes paid are uses of revenue which are recognized when distributions are made to the taxing districts and others.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Deposits

The Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

MORGAN COUNTY
NOTES TO FINANCIAL STATEMENT
May 26, 2007
(Continued)

Note 2. Deposits (Continued)

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the Sheriff's deposits may not be returned. The Sheriff does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). As of May 26, 2007, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

Note 3. Tax Collection Period

A. Property Taxes

The real and personal property tax assessments were levied as of January 1, 2006. Property taxes were billed to finance governmental services for the year ended June 30, 2007. Liens are effective when the tax bills become delinquent. The collection period for these assessments was October 18, 2006 through May 26, 2007.

B. Unmined Coal Taxes

The tangible property tax assessments were levied as of January 1, 2005. Property taxes are billed to finance governmental services. Liens are effective when the tax bills become delinquent. The collection period for these assessments was April 24, 2006 through December 22, 2006.

Note 4. Interest Income

The Morgan County Sheriff earned \$843 as interest income on 2006 taxes. The Sheriff did not distribute interest as required by statute. As of March 24, 2008, the Sheriff owed \$381 in interest to the school district and \$462 in interest to his fee account.

Note 5. Sheriff's 10% Add-On Fee

The Morgan County Sheriff collected \$35,267 of 10% add-on fees allowed by KRS 134.430(3). This amount was used to operate the Sheriff's office.

Note 6. Advertising Costs

The Morgan County Sheriff collected \$630 of advertising costs allowed by KRS 424.330(1). The Sheriff did not distribute advertising costs to the county as required by statute. As of March 24, 2008, the Sheriff owed \$630 in advertising costs to the county.

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Timothy Conley, Morgan County Judge/Executive
Honorable Mickey Whitt, Morgan County Sheriff
Members of the Morgan County Fiscal Court

Report On Internal Control Over Financial Reporting And On
Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards

We have audited the Morgan County Sheriff's Settlement - 2006 Taxes for the period May 14, 2006 through May 26, 2007, and have issued our report thereon dated March 24, 2008. The Sheriff prepares his financial statement in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Morgan County Sheriff's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Morgan County Sheriff's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Morgan County Sheriff's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with the modified cash basis of accounting which is a basis of accounting other than generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statement that is more than inconsequential will not be prevented or detected by the entity's internal control over financial reporting. We consider the deficiencies described in the accompanying comments and recommendations to be significant deficiencies in internal control over financial reporting: 2006-06, 2006-07, 2006-08, 2006-09, 2006-10, and 2006-11.



Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

Internal Control Over Financial Reporting (Continued)

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statement will not be prevented or detected by the entity's internal control. Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we consider the significant deficiencies described above to be material weaknesses.

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Morgan County Sheriff's Settlement – 2006 Taxes for the period May 14, 2006 through May 26, 2007 is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under Government Auditing Standards and which are described in the accompanying comments and recommendations: 2006-01, 2006-02, 2006-03, 2006-04, and 2006-05.

Morgan County Sheriff's responses to the findings identified in our audit are included in the accompanying comments and recommendations. We did not audit the Sheriff's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of management, the Morgan County Fiscal Court, and the Department for Local Government and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,



Crit Luallen
Auditor of Public Accounts

March 24, 2008

COMMENTS AND RECOMMENDATIONS

MORGAN COUNTY
MICKEY WHITT, SHERIFF
COMMENTS AND RECOMMENDATIONS

For The Period
May 14, 2006 Through May 26, 2007

STATE LAWS AND REGULATIONS:

2006-01 The Sheriff Should Maintain A Receipts Ledger For Taxes And Fees Collected

KRS 134.170(1) states that when money is paid to the Sheriff, the Sheriff shall enter payment upon his record books. The record books would be the receipts ledger. The Sheriff did not maintain a receipts ledger for taxes and fees collected. The Sheriff should post daily collections to a receipts ledger. Further, tax collections should be posted separately from add-on fees, advertising fees, and advertising costs to allow the Sheriff to determine the amount of add-on fees, advertising fees, and advertising costs to distribute. We recommend the Sheriff maintain a detailed receipts ledger for taxes and other fees collected.

Sheriff's Response: Our office was maintaining a receipts and disbursements ledger on check stubs and computer printouts. We now are recording all receipts and disbursements on an excel program to show a detailed listing of all taxes.

2006-02 The Sheriff Should Pay Taxes To Districts In A Timely Manner

KRS 134.300(2) and KRS 134.320(2) state the Sheriff shall, at the time of making his report to taxing districts, pay to the districts all funds belonging to the districts. However, the Sheriff did not timely pay all taxes to all districts. One check to the State in the amount of \$13,706 for 2006 property taxes collected during April 2007 has never cleared the bank. Payments to the Library, Health, Extension, and Soil districts for April 2007 collections did not timely clear the bank. Payments to these districts took as long as 79 days to clear the bank. We could not determine that any payments to the districts have been made for 2006 property taxes reported on a supplemental report dated June 6, 2007. Taxes due the districts for this supplemental report total \$5,137. We could not determine that payments for additional tax bills collected by the Sheriff were made to the State, Library, Health, Extension, Soil, and Ambulance districts. Taxes due the districts for additional tax bills total \$29. Furthermore, we could not determine that all franchise taxes collected have been paid to the districts. We could find no payments made to the Library, Health, Extension, and Ambulance districts for April franchise tax collections. Amounts due the districts for April franchise taxes total \$276. Finally, we could not determine that any payments were made to the districts for 2005 unmined coal tax collections. Taxes due the districts for 2005 unmined coal tax collections total \$579. All taxes collected and due the districts have been reported on the financial statement included in this audit report. Therefore, any amounts reported as due the districts (or refunds due the Sheriff) on the financial statement are net of items included in this comment. We recommend the Sheriff comply with KRS 134.300(2) and KRS 134.320(2) by timely paying taxes to the districts.

Sheriff's Response: All taxes have been paid to the districts. We are now hand delivering all tax checks to the districts.

MORGAN COUNTY
MICKEY WHITT, SHERIFF
COMMENTS AND RECOMMENDATIONS
For The Period May 14, 2006 Through May 26, 2007
(Continued)

STATE LAWS AND REGULATIONS: (Continued)

2006-03 The Sheriff Should Sign All Copies Of Monthly Tax Reports

KRS 134.300 and KRS 134.320 require the Sheriff to report under oath to the county judge/executive and to the department of revenue the amount of state and county taxes collected during the preceding month. The Sheriff did report monthly to taxing districts. However, the Sheriff did not maintain signed copies of monthly tax reports. In the absence of signed copies of monthly tax reports, the Sheriff cannot document that he has signed the oath certifying the monthly tax reports are true and accurate. Inquiry of the following taxing districts indicates that the Sheriff did not sign monthly tax reports to those districts: County Fiscal Court, County School, and Health Department. We recommend the Sheriff sign monthly tax reports certifying the monthly tax reports are true and accurate and that the Sheriff maintain signed copies of all monthly tax reports.

Sheriff's Response: The Sheriff now signs all tax reports and checks.

2006-04 The Sheriff Should Distribute Interest Earnings As Required By Law

The Sheriff earned \$843 of interest in his 2006 tax account. KRS 134.140(3)(b) states, "At the time of his monthly distribution of taxes to the district board of education, the Sheriff shall pay to the board of education that part of his investment earnings for the month which is attributable to the investment of school taxes." The Sheriff is allowed to charge up to 4% of the investment income as a fee for administrative expenses. According to KRS 134.140(3)(d), the balance of investment income should be paid to the Sheriff's operating account. For 2006 taxes, the Sheriff did not distribute any interest earnings to the school or to his operating account. Based upon the amount of interest earned, the Sheriff owes \$381 to the school district and \$462 to the fee account. We recommend the Sheriff distribute interest earned on tax collections in accordance with KRS 134.140(3)(b) and KRS 134.140(3)(d).

Sheriff's Response: We have developed a procedure that allows us to know and distribute interest earned monthly to the school and fee account with the excel program and bank statements.

MORGAN COUNTY
 MICKEY WHITT, SHERIFF
 COMMENTS AND RECOMMENDATIONS
 For The Period May 14, 2006 Through May 26, 2007
 (Continued)

STATE LAWS AND REGULATIONS: (Continued)

2006-05 The Sheriff Should Mark Tax Bills Unpaid For Insufficient Funds Checks

We found taxpayer checks totaling \$3,136 that was returned by the bank for insufficient funds. The Sheriff's collections efforts did not result in payment of the insufficient funds items. When the bank returns a taxpayer's check for insufficient funds and the Sheriff is unable to collect from the taxpayer, then the tax bill related to the insufficient funds should be marked as unpaid. The Sheriff's collection efforts for insufficient funds checks should include calling the taxpayer and asking that the taxpayer resolve the issue. The Sheriff may also ask the County Attorney to send a notice to the taxpayer, asking that the insufficient funds check be resolved. If the insufficient funds check is not resolved, then the Sheriff should mark the tax bill as unpaid and send a registered letter to the taxpayer informing the taxpayer that the bill has been marked unpaid. A copy of the registered letter should be maintained by the Sheriff's office as documentation of notice to the taxpayer. After the bill has been marked unpaid, if the taxpayer comes in to pay the bill, the Sheriff should collect as if this was the first time the bill has been paid (applying penalties or fees if applicable). If the bill remains unpaid at the time the Sheriff files his delinquency report, then the tax bill should be treated the same as all other delinquent taxes. We recommend the sheriff mark tax bills unpaid for insufficient funds checks.

Sheriff's Response: Our office received several NSF checks for taxes. These taxes were marked paid originally deposited and distributed to the districts. This process was interrupted by the return of a taxpayers check. This issue causes our tax acct. to be short and by law we are forced to make all efforts to collect. We are now turning NSF checks over to the County Attorney and if not collect the bills will be marked unpaid.

INTERNAL CONTROL – SIGNIFICANT DEFICIENCIES AND MATERIAL WEAKNESSES:

2006-06 The Sheriff Should Improve Internal Controls Over The Financial Activities Of His Office

In the audit report, we have included comments addressing internal control issues such as inadequate segregation of duties, inaccurate or incomplete financial reports, untimely bank deposits, and the absence of monthly bank reconciliations. The cumulative effect of these control issues increases the risk of material misstatement caused by error or fraud and results in the need to alert management of the necessity to improve controls over the financial activities of the office. We recommend the Sheriff be more diligent in the day-to-day operations of his office by providing direct oversight of financial reporting for all receipts and disbursements including daily deposits, tax payments, tax reports, and monthly bank reconciliations. In addition, the Sheriff should contact the Governor's Office for Local Development or the Department of Revenue to seek additional training and technical assistance for himself and his staff.

Sheriff's Response: We have developed procedures to improve internal controls. The Sheriff is diligently working daily on controls of the activities of the office. The Sheriff signs and reviews all receipts and disbursements.

MORGAN COUNTY
MICKEY WHITT, SHERIFF
COMMENTS AND RECOMMENDATIONS
For The Period May 14, 2006 Through May 26, 2007
(Continued)

INTERNAL CONTROL – SIGNIFICANT DEFICIENCIES AND MATERIAL WEAKNESSES:
(Continued)

2006-07 The Sheriff's Office Lacks Adequate Segregation Of Duties

The Sheriff's office lacks adequate segregation of duties due to the responsibilities of receiving, depositing, disbursing, recording, and reconciling cash being delegated to the same individual. The functions of receiving, depositing, disbursing, recording, and reconciling cash should be separated whenever possible in order to decrease the risk that errors, misstatements, and/or fraud will occur and go undetected. Since only one person performs most of these functions, there is no assurance that financial transactions are accurate, complete, and free of error/misstatement. We recommend the Sheriff segregate the duties of receiving, depositing, disbursing, recording and reconciling cash or implement and document compensating controls to offset this control deficiency. Examples of compensating controls include: the Sheriff comparing the daily checkout sheet to batched tax bills, comparing the daily checkout sheet to the receipts ledger and the bank deposit, reviewing bank reconciliations for accuracy, performing surprise cash counts, signing all checks, reviewing tax reports prior to payments to districts, and reviewing all financial reports. The Sheriff should document his review process by initialing reports and supporting documentation.

Sheriff's Response: Our office is understaffed. We have a tight budget for hiring. We have developed procedures to segregate all duties according to our office size and we are adequately performing all procedures.

2006-08 The Sheriff Should Deposit Tax Collections In A Timely Manner

Tax collections began on November 1, 2006. However the first deposit to the Sheriff's 2006 Tax Account was not made until November 22, 2006, twenty-one days after the start of collections. On November 22, 2006, \$23,060 was deposited. The next deposit to the 2006 tax account was not made until November 29, 2006 and totaled \$255,242. Furthermore, a franchise tax payment in the amount of \$2,059 was not deposited timely. The date of the check for payment of this franchise tax bill was November 10, 2006. However this check was not deposited until July 20, 2007, approximately 180 working days after the check was written. A review of deposits-in-transit at May 26, 2007 revealed that some deposits did not clear the bank for 28 working days. Tax collections should be deposited intact on a daily basis. By not making timely deposits, the Sheriff places taxpayer funds at risk for loss or theft. Customer checks held for long periods could become stale dated and may not clear the Sheriff's bank account. We recommend the Sheriff monitor operations of his office to assure timely deposit of tax collections.

Sheriff's Response: All deposits are now made timely. Our office is now making daily deposits and keeping daily checkout sheets to reconcile all accounts.

MORGAN COUNTY
MICKEY WHITT, SHERIFF
COMMENTS AND RECOMMENDATIONS
For The Period May 14, 2006 Through May 26, 2007
(Continued)

INTERNAL CONTROL – SIGNIFICANT DEFICIENCIES AND MATERIAL WEAKNESSES:
Continued)

2006-09 The Sheriff Should Batch And Process Tax Bills On A Daily Basis

Tax bills collected should be batched and processed daily. Taxes collected should be deposited daily. The Sheriff did not batch and process tax bills on a daily basis. Furthermore, taxes collected were not deposited on a daily basis. The Sheriff did batch tax bills and batches were processed. However, batches contained bills paid on multiple dates reflecting activity for several days or weeks. Batch processing should reflect daily activity and taxes collected should be deposited daily. By not batching, processing, and depositing on a daily basis, the Sheriff failed to follow internal control procedures that could be used to prevent or detect errors in a timely manner. We recommend the Sheriff batch and process tax bills on a daily basis. We also recommend the Sheriff make daily deposits.

Sheriff's Response: All tax bills are now batched daily and processed.

2006-10 The Sheriff Should Prepare Monthly Bank Reconciliations

The Sheriff did not reconcile his books to the bank on a monthly basis. Bank reconciliations are a tool that can be used to determine that all deposits and payments have been made and that taxes have been properly paid. Bank reconciliations might have detected that deposits were not being made timely, that tax bills were not batched and processed on a daily basis, that tax payments were not made timely, and that NSF checks had not been collected. The absence of bank reconciliations increases the risk that errors will occur and go undetected, leading to inaccurate financial reports. We recommend the Sheriff reconcile his books to the bank upon receipt of each bank statement.

Sheriff's Response: Monthly bank reconciliations are now being made. We have several procedures to keep our office reconciled on all accounts.

2006-11 The Sheriff Should Make Sure The Delinquent Tax List Is Accurate

The Sheriff's delinquent tax list should include only those tax bills that were not paid at the end of tax collections. Tax collections ended on May 26, 2007. However the Sheriff's delinquent tax list included 26 tax bills totaling \$9,298 that were paid during tax collections. These tax bills were collected by the Sheriff as early as November 14, 2006 and as late as May 26, 2007. If these tax bills had been properly processed through the computer system, they would not have been included on the delinquent tax list. Furthermore, there is no evidence that \$5,137 of these taxes have been distributed to the taxing districts. We recommend the Sheriff implement procedures to assure that all tax collections are properly processed through the computer system and that distributions are made to the taxing districts.

Sheriff's Response: All taxes that were paid are processed correctly and paid out to the appropriate districts. A computer error occurred in the process of two batches of bills. Our office marked the bills paid and processed them in the computer. The computer system failed to update on two occasions resulting in an error. We immediately took care of the error and resolved the issue. We have contacted the Revenue Cabinet about this error and they advised us to look into a new system. We have made adequate changes and developed procedures manually to make sure the system updates properly. In the future we feel strongly that this problem will not arise again.

